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PROFILE:
Swift Current,
Saskatchewan

FEATURE:
The Era of Rising
Gas Prices

OPINION:
Improving
Productivity AND
Working Fewer
Hours

CanadaWest
FOUNDATION

Our Vision
A dynamic and prosperous
West in a strong Canada

Our Mission
A leading source of strategic
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research of importance to
the four western provinces
and all Canadians.

CURRENTS

Western Canada's
Monthly Economic Bulletin

Vol. 2008, No. 7 a Canada foundation publication

Monthly Highlights

Growth in average weekly earnings was stronger in Alberta and Saskatchewan than in any other province in Canada. Average weekly earnings in Manitoba grew faster than the national average while growth in BC was slightly lower than the national average.

Compared to the same month in 2007, the price of gasoline was up 15% nationally. As a result, the overall rate of inflation was the highest since January. Inflation in the West was highest in Alberta and Saskatchewan, where

consumer prices advanced 3.7% and 3.2% in May compared to 12 months earlier.

The total value of building permits hit \$2.7 billion for the West in May. In the West, there were notable increases (on a three-month moving average basis) in residential and non-residential building permits in Saskatchewan. However, a trend across most of the country is a decline in residential permits, which reflects the cooling housing market.

Retail sales dropped from March to April in six provinces, including all four

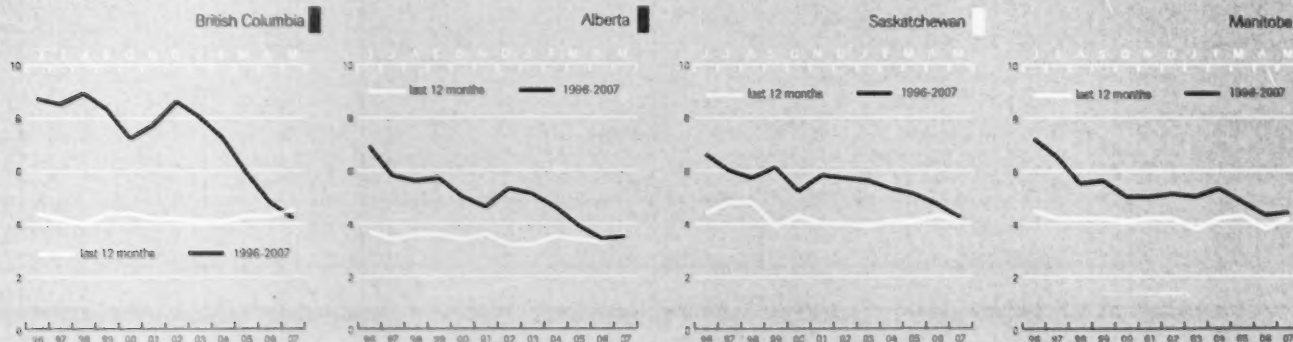
in the West. Compared to the same period in 2007, retail sales are up across the board. The largest increases in the country came from Saskatchewan and Manitoba. Growth in retail sales in BC and Alberta, on the other hand, came in below the national average.

Nationally, manufacturing sales were down 5.6% (on a three-month moving average basis) compared to 2007. Three out of four western provinces posted declines while Saskatchewan recorded a fairly strong increase.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,321.8	2,017.7	509.6	608.8	17,139.4	June
% change, 3-month ma, yoy	2.9	3.1	1.9	2.2	1.9	
Unemployment rate (SA, %)	4.5	3.3	4.0	4.1	6.2	June
Participation rate (SA, %)	66.8	74.6	69.2	69.8	67.9	June
Average weekly earnings (SA, \$)	774.00	873.25	750.96	721.70	789.99	April
% change, 3-month ma, yoy	2.7	5.9	5.2	3.7	3.1	
CPI inflation, annual (%)	2.1	3.7	3.2	1.6	2.2	May
Building permits: residential (SA, \$ millions)	642.7	581.6	106.7	93.5	3,693.0	May
% change, 3-month ma, yoy	14.2	24.3	57.6	19.9	6.1	
Building permits: non-residential (SA, \$ millions)	494.7	641.4	77.2	42.6	2,922.6	May
% change, 3-month ma, yoy	12.4	12.6	77.7	18.1	0.5	
Housing starts (SAAR, 000s)	34.0	27.7	10.0	5.9	217.8	June
% change, 3-month ma, yoy	-2.6	-30.5	13.7	13.5	-3.3	
Retail trade (SA, \$ millions)	4,775	5,105	1,188	1,239	35,631	April
% change, 3-month ma, yoy	3.2	2.5	13.8	9.5	4.7	
Wholesale trade (SA, \$ millions)	4,420	5,420	1,587	1,075	43,389	April
% change, 3-month ma, yoy	-1.9	5.7	26.4	4.2	-1.1	
Manufacturing sales (SA, \$ millions)	3,350	5,637	987	1,289	49,804	April
% change, 3-month ma, yoy	-8.7	-2.7	11.8	-5.3	-5.6	

Source: Statistics Canada. yoy=year over year, SA=seasonally adjusted, SAAR=seasonally adjusted at annual rates

Unemployment Rate (%)



Did you know?

The average annual number of hours worked was 1,738 for Canada in 2006. In comparison, the average was 1,391 hours in the Netherlands, 1,564 in France, 1,797 in the US, and 2,357 in South Korea.

In 2006 there were 590 cars for every 1,000 Canadians.

In 2006 over 60% of immigrants to western Canada came from Asia and the Pacific Rim.

Canada had 107 prisoners per 100,000 people in 2004; in comparison the United States had 725 prisoners per 100,000 people.

Canada ranked fourth out of 177 countries in the United Nations Human Development Index for 2007/2008. The top three countries were Iceland, Norway, and Australia.

Approximately 75% of Canada's exports to Asian countries are shipped through customs ports in BC.

City in Profile: Swift Current, SK

Population: 16,000

City slogan: "Where life makes sense."

Located 245 kilometres west of Saskatchewan's provincial capital, Swift Current, with a population of approximately 16,000, is the largest city in southwestern Saskatchewan. The city's population increased 0.8% between the 2001 and 2006 Censuses. While Swift Current's population growth over this period was modest, it stood in contrast to a decrease of 1.1% for the province as a whole.

Swift Current is a full participant in Saskatchewan's current economic boom. High commodity prices, especially for oil, natural gas, grains and oilseeds have been beneficial to the city and surrounding region. Economic activity in Swift Current is driven primarily by oil and gas exploration and development and agriculture. Manufacturing and service industries also play an important role. Approximately 70% of natural gas wells drilled in Saskatchewan are in the Swift Current region. Over the period of 2006 to 2007, close to 1,000 gas wells were drilled in the area. The economic boom was evident in 2007 when Swift Current recorded the highest value of building permits in the city's history.



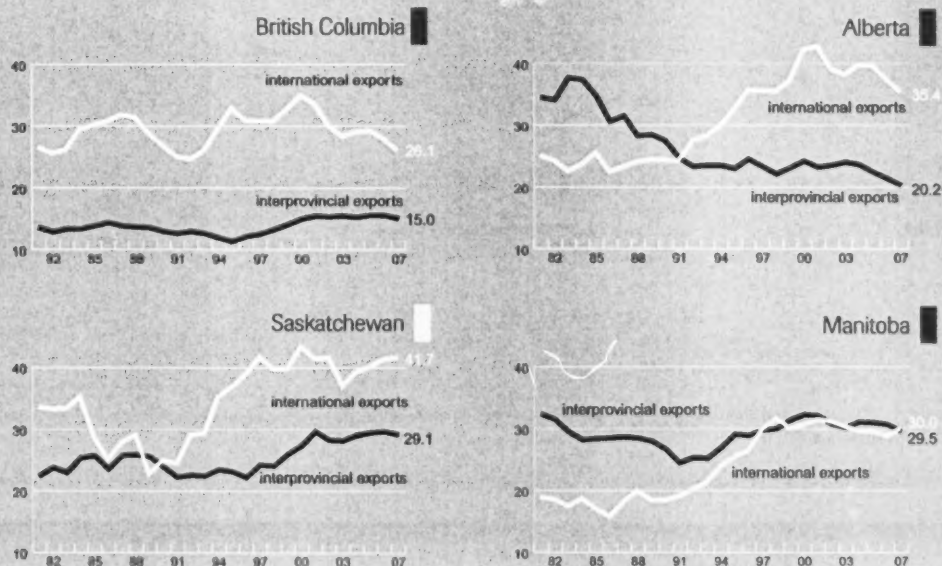
BEHIND THE NUMBERS

In contrast to international exports, interprovincial exports have decreased as a percentage of GDP over the past 25 years for the West as a whole. The same is true for the rest of Canada as well. However, patterns for each western province are unique. Interprovincial exports as a percentage of GDP in Manitoba is almost the same as international exports, setting the province apart.

Although interprovincial exports have declined as a percentage of GDP, they are nonetheless a very important part of the economy. For the West as a region, interprovincial exports totaled \$110 billion in 2007 and have nearly doubled (accounting for inflation) since 1981.

International Exports and Interprovincial Exports as a Share of GDP
(Current Prices, 1981-2007, %)

Source: Statistics Canada



THE ERA of Rising Gas Prices

High oil prices are a net benefit for Canada's energy rich provinces. However, for many Canadians, rising gasoline prices are an increasing source of frustration.

Aside from gritting their teeth as they fuel up, what has been the response of consumers to rising gasoline prices? The law of demand states that the demand for something falls as its price increases. However, in the parlance of economists, the demand for gasoline is inelastic. In plain language, the demand for gasoline is not very responsive to price. This is especially true in the short-run. For example, one estimate suggests that for a 10% increase in the price of gasoline, demand falls 2% in the short-run.

To be sure, there is some evidence that high prices are having an impact on consumer behaviour. Total consumption of crude oil has decreased in the US and western Europe so far in 2008. The US Department of Energy expects gasoline sales to fall slightly in 2008, the first drop in 18 years.

Here in Canada, total retail gasoline sales increased 17.5% between 1996 to 2004, despite a 46.8% increase in the price (see figure). Sales growth in 2000

was the outlier, a year in which demand for gasoline was dampened by a 21.9% increase in the price of fuel. The rapid increase in the price of gasoline since 2002 eventually met with a drop in demand in 2005 and a small increase in 2006. Directly comparable data for 2007 were not available at the time of writing. However, Natural Resources Canada has reported that gasoline demand increased by about 4% in 2007. The US Department of Energy expects gasoline sales in the US to fall slightly in 2008, the first drop in 18 years.

There are a couple reasons why total consumption of gasoline has increased despite higher prices at the pump. First, the total number of vehicles on the road has gone up considerably. In 1990 there were 12.98 million personal vehicles on the road, the equivalent of 0.47 vehicles per Canadian. By 2007 the number of vehicles increased 47.9% to 19.20 million vehicles, or 0.58 vehicles per Canadian (population growth over this period was 19.1%).

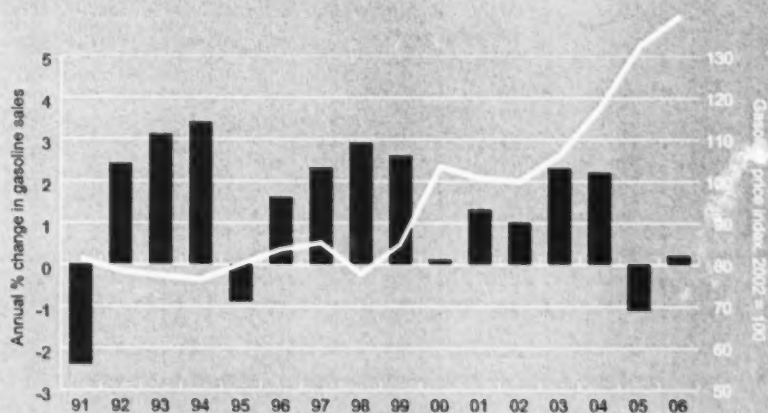
Secondly, there was a shift from cars to light trucks and SUVs in the 1990s. In the 1980s, trucks (light trucks, mini-vans and SUVs) accounted for approximately 25% of new vehicle sales. By the late 1990s, trucks accounted for nearly half of all new vehicle sales. The share of trucks of all new vehicle sales has fluctuated only a little since then. In 2007, light trucks, SUVs and mini-vans accounted for 49.2% of all new vehicle sales in Canada.

The price at the pump has risen more than 50% in some parts of western Canada over the past three years. As the price of gasoline rises ever higher, consumers will undoubtedly alter their behaviour. But, one has to wonder how high gasoline prices will have to go before there is a permanent and significant change in behaviour. For example, will we start to see a significant number of people going completely car-free? Will two car households move en masse to one car? Will gas guzzling trucks and SUVs become a rarity, even unthinkable? Will the demand for suburban homes fall as people try to reduce their dependency on automobiles? It is possible that things like this could happen, but I wouldn't bet on it.

Aerial photo of Swift Current, Saskatchewan

Gasoline Demand and Prices

Source: Statistics Canada



Let's improve our productivity AND enjoy the fact that we work fewer hours

by Brett Gartner, Senior Economist

The Calgary Stampede recently wrapped up and you can bet your bottom dollar that productivity was down and less work got done as people attended pancake breakfasts, BBQs, and other events, often while "on the clock." Some workplaces in Calgary provide employees a paid day off during Stampede while others shut down on Parade Day. It is sometimes said that Calgarians work hard and play hard. So, it can be argued that a bit of a break during Stampede is well-deserved. Yee-Haw!!

This got me thinking about some important issues that economists and public policy-makers have been grappling with for some time now—productivity and national prosperity.

To be generous, productivity growth has not been one of Canada's strengths. Our record on productivity stinks like a fresh horse turd on a hot day during Stampede.

Canada's average annual growth in GDP per hour worked since 2001 has fallen short of most industrialized countries. In fact, Canada ranks second last among G7 nations and 22nd out of 29 countries in the OECD. In the G7, Canada only managed to edge out Italy, a country that has not exactly proven itself as an economic dynamo. Canada's rate of labour productivity growth has been less than half that of the US, UK, and Finland; and less than one-third that of Sweden.

This is a major cause for concern as productivity is a key source of economic growth and competitiveness. Productivity is a broad measure that economists use to describe the output that an hour of labour produces. If output per hour worked goes up, productivity is said to increase. Paul Krugman, the noted economist and New York Times columnist, once said "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker."

Although far from perfect, GDP per capita is a useful and widely used measure of average living standards or economic wellbeing. A critical component of growth in GDP per capita is growth in labour productivity. Growth in labour productivity is sometimes misunderstood to imply working longer hours or increasing the number of days worked in a year. This is not the case. Indeed, it is more accurately described as working smarter.

Canada's poor track record on productivity is an important reason why Canada's GDP per capita lags way behind the US. The so-called prosperity gap between Canada and the US has grown significantly over time and hit almost \$9,000 per capita in 2006. Reducing this gap by finding more efficient ways to produce the same level of economic output with the same amount of effort is a laudable goal that all Canadians should be able to get behind.

But, there is another part of Canada's prosperity gap with the US that is not due to productivity. It is however directly linked to how much we work. In fact, the Institute for Competitiveness and Prosperity has estimated that a significant chunk—approximately \$4,500—of the prosperity gap is due to working less. Canadians take more vacation time than Americans and work shorter weeks when on the job.

While it may be true that working more could significantly increase our standard of living as measured by GDP per capita, I am an ardent believer in the idea that working less makes us happier and contributes to a higher quality of life overall. After all, a great many of the things that make life worth living are not captured in the bottom line of GDP per capita. One last thing, working less should not be confused with laziness. There is no logical contradiction between working fewer hours and taking vacation time, and being a diligent and productive worker while on the job. And, who knows, perhaps working less and taking more vacation time actually makes a positive contribution to our productivity when we are at work. ■

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